

**MINUTES**

**MONTANA SENATE  
56th LEGISLATURE - REGULAR SESSION**

**COMMITTEE ON TAXATION**

**Call to Order:** By **CHAIRMAN GERRY DEVLIN**, on January 28, 1999 at 8:00 A.M., in Room 325 Capitol.

**ROLL CALL**

**Members Present:**

Sen. Gerry Devlin, Chairman (R)  
Sen. Bob DePratu, Vice Chairman (R)  
Sen. John C. Bohlinger (R)  
Sen. Dorothy Eck (D)  
Sen. E. P. "Pete" Ekegren (R)  
Sen. Jon Ellingson (D)  
Sen. Alvin Ellis Jr. (R)  
Sen. Bill Glaser (R)  
Sen. Barry "Spook" Stang (D)

**Members Excused:** None

**Members Absent:** None

**Staff Present:** Sandy Barnes, Committee Secretary  
Lee Heiman, Legislative Branch

**Please Note:** These are summary minutes. Testimony and discussion are paraphrased and condensed.

**Committee Business Summary:**

Hearing(s) & Date(s) Posted: SB 135, 1/18/1999; SB 143,  
1/18/1999; SB 157, 1/18/1999  
Executive Action: None

**HEARING ON SB 135, SB 143, SB 157**

**Sponsor:** SENATOR MIKE SPRAGUE, SD 6, BILLINGS

**Proponents:** Mick Robinson, representing Governor Racicot  
Jim Peterson, Montana Tax Policy Coalition and  
Montana Stockgrowers Association

Harold Blatty, Montana Association of Counties and  
Stillwater County Commissioner  
Webb Brown, President, Montana Chamber of Commerce  
Dennis Burr, Montana Taxpayers Association  
Vernon Peterson, County Commissioner, Fergus County  
Gordon Morris, Montana Association of Counties  
Charles Brooks, Billings Chamber of Commerce  
Stuart Doggett, Montana Innkeepers Association  
Carl Schweitzer, Montana Wood Products Association  
Linda Brannon, Montana School Business Officials and  
Indian Impact Schools of Montana

Opponents: Dick Pattison, Montanans Opposing Sales Taxes,  
Montana Senior Citizens  
Don Judge, AFL-CIO  
Ron deYong, Montana Farmers Union  
Chester Kinsey, for Himself

Informational Testimony: Rep. Robert R. Story Jr., HD 24,  
Park City  
Rod Sundsted, Montana University System  
Riley Johnson, National Federation of  
Independent Businesses

Opening Statement by Sponsor:

SEN. MIKE SPRAGUE, SD 6, Billings Heights, introduced SB 135, SB 143 and SB 157 as interconnected bills that work very harmoniously with each other. He referred the committee to the Comprehensive Tax Reform Proposal **EXHIBIT (tas22a01)**, which introduced the members of the Interim Property Tax Committee on the front page. He said the job of the Interim Property Tax Committee was to look at Montana's property tax system and evaluate it.

SEN. SPRAGUE said that the Interim Property Tax Committee looked at Montana's property tax system from 1972 through 1997, and tried to figure out what was happening with the tax system which created the shifts. Pointing to page 2 of Exhibit 1, he said that in that time span, the share for real property and utilities increased from half to three-quarters of the tax burden, illustrating where the money is coming from. Moving to Chart 6 **EXHIBIT (tas22a02)** and Chart 7 **EXHIBIT (tas22a03)**, he said that these charts show where the money is going. He said these charts indicate that education is the primary concern of all citizens of Montana and this reflects how it is funded. He said in 1972 the burden of education was 56% of the revenues from property taxes, and today it is 63.8%. He said local government is illustrated

by the red, and that is primarily who has been taking the brunt of the tax shift over the period of time.

**SEN. SPRAGUE** said that he agrees with Governor Racicot that Montana's tax system is obsolete, that there are too few paying too much for too many, and some say for too long. He said property owners have been asked to carry the major burden of the education responsibility for all citizens. We all know the value of education, and we all know it has to be funded equitably.

He said that **SB 135**, **SB 143** and **SB 157** have been designed to work in harmony with each other. Should this solution of our tax problems make it to a vote of the people, all three bills would have to be voted in the affirmative in order for the system to work; they cannot be separate. **SB 135** is bringing what we call 100% market value. The idea is that we have one tax uniformly that is based on 100% market value or productive value. **SB 157** is the property tax reform and/or property tax relief. He said that the committee was told that if they recommend a sales or consumption tax, they must give an equal and opposite relief. The Constitution says that a 4% sales tax could not go higher without a vote of the people, but the committee tried to guarantee that this will give an equal and opposite reaction in property tax relief. **SB 143** provides what will be taxed. He said this will be a broad-based tax.

Referring to page 4 of Exhibit 1, **SEN. SPRAGUE** said the rudiment of this whole process is revenue neutrality. He said it is stated in the bill that any money raised on the one hand must be given an equal and opposite tax reduction.

**REP. ROBERT STORY, HD 24, Park City**, testified that he was also a member of the Interim Property Tax Committee. He said **SB 135** is the shortest of the bills, and basically does one thing, It takes our property tax classification system and puts it all on the same rate, which is 100% of market value. This is a change in tax rate as identified under **CI-75**, and will have to be voted on.

**SB 157**, the largest bill, is the tax relief bill. **REP. STORY** referred the committee to page 5 of the Comprehensive Tax Reform Proposal, which explains that it provides a homestead exemption for homeowners, 65% of the first \$50,000 or less of market value for owner-occupied residences; it eliminates the business equipment tax and livestock tax; and it continues the consolidation of the classes. The tax relief side of **SB 157** is provided by eliminating the 95 mills for the Foundation Program; replaces the local mills on the county level for retirement and transportation; and replaces the local mills for below base

budgets. He said the state will now pick up the full 80% of that base, and it will no longer be a local obligation under this bill. **SB 157** also changes the motor vehicle tax to 1.5% and the new car sales tax from 1.5% to 4%.

**REP. STORY** referred the committee to Chart 11 of the Comprehensive Tax Reform Proposal, which basically shows what the current market value of the various classes are and what would happen if we went to full appraisal. Chart 12 breaks that down into the dollars that each class will pay. Chart 13 is just a comparison of where we are under current law with **SB 195** and where some of these classes of property will be with the combination of these three bills together, and how it works out into dollars paid per class, where the increases and decreases are. Chart 14 is a bar graph showing the numbers on Chart 13, with the exception of class ten timber property. He said Chart 13 reflects a large increase in the tax burden on timber with this classification system, resulting from the change from 7.9% up to an average percentage. Chart 14-A is a graph like the one before, without timber on it. Chart 15, **REP. STORY** said, deals with motor vehicles. This bill takes motor vehicles from a 2% rate down to 1.5% of their depreciated manufacturer's suggested retail price, about a 25% tax break. Chart 16 is the distribution of that motor vehicle money.

Referring to **SB 157**, **REP. STORY** said that Section 1 changes the county classifications. Section 2 through 29 are adjustments to levy limits; Section 30 is a definition. Referring to Section 30, page 17 of **SB 157**, he said there is a change in definition of what constitutes improvements to real estate. Some things that are now classified as personal property or business equipment will move into class four as improvements. Sections 34 and 35 are exempt categories; Sections 36 through 38 are the homestead exemption, 65% of the first \$50,000 of the value of a home. Section 47 changes the vehicle assessment; Section 78 is the elimination of the livestock tax; Section 100 through 141 deal with school funding and are basically mill levy reductions; Section 142 through 144 deal with local government, largely with statutory levies that need to be adjusted; and Section 145 through 159 are modifications in the vehicle tax, again.

**SEN. SPRAGUE** said **SB 143** is enactment and vote of the people on the 4% sales tax on consumable goods, excluding necessities such as groceries, prescription drugs, et cetera. He said the whole premise of this proposal is like a bell curve with the young families on one side and the elderly on the other. As he said before, these three bills are meant to go together.

**SEN. SPRAGUE** said that the reason people will not vote for a sales tax or a consumption tax is that they want elimination of another tax. He said that by doing the best we can with a 4% Constitutionally capped tax, it will raise approximately \$500 million. That \$500 million is being used for a revenue neutral tax relief. He thanked **REP. STORY** for helping carry the load of this bill.

**Proponents' Testimony:**

**Mick Robinson, representing Governor Racicot,** said the Governor has been a strong supporter of comprehensive tax reform in Montana, and so is in favor of this proposal. Although it is structured differently than the proposal the Administration will be bringing forward to this committee, it is believed that this proposal provides comprehensive tax reform that this state so desperately needs, and they are willing to work with **SEN. SPRAGUE** and **REP. STORY** and this committee in crafting the best possible solution for Montana in terms of tax reform.

**Jim Peterson, Executive Vice-President, Montana Stockgrowers Association and the Montana Tax Policy Coalition,** commended the efforts of the Interim Tax Committee and **SEN. SPRAGUE** and **REP. STORY** for bringing this comprehensive tax reform proposal to the table. He said there is tremendous support for a meaningful effort to accomplish tax reform.

**Mr. Peterson** listed the organizations that are a part of the Montana Tax Policy Coalition, and said that they have been meeting since early October. On November 24th they agreed on five basic principles for tax reform: 1) significant property tax relief; 2) a balanced tax base of income tax, property tax and a retail sales tax; 3) it must be revenue neutral and not increase the over-all tax burden on Montana citizens; 4) it must be simple and easy to understand and implement and not be hidden; and 5) it must enhance jobs and economic development **EXHIBIT (tas22a04)**.

**Mr. Peterson** said the Montana Tax Policy Coalition stands in support today of this concept of tax reform; however, they would prefer a modified version of this proposal and would like the opportunity at the proper time to present it to this committee.

**Harold Blatty, First Vice-President of the Montana Association of Counties and Stillwater County Commissioner,** said he applauds the efforts made in bringing this proposal. Montana needs meaningful tax reform.

**Mr. Blatty** presented a copy of his personal tax bill **EXHIBIT (tas22a05)**, which demonstrated how this proposal would affect him. He directed the committee to the \$5,756.98 of total taxes due. He then led the committee through an exercise which demonstrated how this proposal would affect him. He said to eliminate the university millage fund, \$130.43; state equalization aid, \$869.52; county elementary equalization, \$717.35; elementary retirement, \$297.81; reduce the general category by \$159.45; eliminate high school, \$478.24; high school retirement, \$180.43; county-wide transportation, \$97.82; reduce the next general category by \$500.15; and eliminate transportation, \$59.34. He said when you total those numbers, what you will have is a tax savings of \$3,487.00. To that, then, add the homestead exemption relief, which is an additional \$245.00, making a total on his tax bill of \$3,732.00. When you divide that by a 4% retail sales tax, it would show that he would have to spend \$87,786.00 on goods and services subject to a retail sales tax to have the same tax burden.

**Mr. Blatty** then handed out a 1998 Real Property Tax Statement for a typical ranch operation in Stillwater County **EXHIBIT (tas22a06)**. He said if you went through the same exercise, eliminating the same dollars as before, this very typical Stillwater County rancher would have a savings of \$3,524.00. He would have to spend \$82,562.00 on goods and services subject to a retail sales tax to have the same tax burden.

**Mr. Blatty** said that this exercise has not even considered the reduction in vehicle taxes which would add to those totals. He suggested that everyone do the same exercise with their own taxes, and asked the committee to pass this proposal.

**Webb Brown, President, Montana Chamber of Commerce**, said the Chamber appreciates the efforts made by the Interim Property Tax Committee and **SEN. SPRAGUE** and **REP. STORY**. He said the Chamber has long recommended reducing and eliminating the business equipment tax and eliminating the livestock tax, feeling that true business recruitment cannot take place in this state until that is done. He said they also favor eliminating the statewide mills, and recommended prohibiting them ever being put back on. He said elimination of the tax classifications works to simplify the tax system, which is needed. He urged support of **SB 135**, **SB 143** and **SB 157**.

**Dennis Burr, Montana Taxpayers Association**, said his organization also supports the concept of this bill. He said he believes that these bills would put Montana where it ought to be. It gets rid of the property classification system; it provides a growing source of funding for public education rather than reliance on

the property tax; it eliminates taxes on business equipment and livestock. He said this is a road map of where Montana should be, and he is happy to support this bill as comprehensive tax reform.

**Vern Peterson, County Commissioner from Fergus County,** said he sees **I-105** as a directive to the 1987 Legislature to come up with meaningful tax reform. The consequence of that not happening would be a tax freeze effective July 1, 1987. That didn't happen, and it did turn into what people thought was a tax freeze. In reality, taxes did increase, causing a tremendous amount of taxpayer frustration. He said these three bills would provide property tax to support local government, a sales tax to support education, and an income tax to support state government. Although that's an oversimplification, he said, we can come a long way toward clearing up some of this frustration with these bills.

**Mr. Peterson** went on to say that the sales tax effort is correlated to your ability to pay. If you don't spend any money, you don't pay any tax. He urged the committee to look favorably on this proposal. He said it may not be perfect, but it has all the material to get the job done.

**Gordon Morris, Director, Montana Association of Counties,** said he did a similar exercise to that of Mr. Blatty and distributed a copy of his tax bill **EXHIBIT(tas22a07)**, which demonstrated that his tax bill under this proposal would be \$929, a reduction of \$1,405. He said that a lot of people support tax reform, and everyone has a different picture of what form that reform should take, but the goal is consistent, and that is to get significant tax reform for Montana and help move us into the 21st Century. He said MACO stands in support of any effort this committee chooses in terms of tax reform.

**Charles Brooks, Billings Area Chamber of Commerce,** said his organization has stood for comprehensive overhaul of the tax system for many years. He said a sales tax similar to the one being discussed today is the vehicle to provide that overhaul.

**Stuart Doggett, Montana Innkeepers Association,** said his organization was a participant in the Montana Tax Policy Coalition and continues to be for broad-based tax reform. He said this proposal meets the test of tax reform that our members and Montana citizens will benefit from in the long run. He said he understands that the Innkeepers will be collecting a 4% sales tax as well as a 4% bed tax, and they are willing to do that for the best interests of Montana.

**Carl Schweitzer, Montana Wood Products Association**, said that in general the wood products industry supports this entire process of tax reform. He said they do have one concern on Charts 13 and 14, and that is the timber land issue. The way the timber land is taxed has been a long process, and he would hope that as this bill goes through the process, the committee would look at that and take that into consideration.

**Linda Brannon, Montana School Business Officials and the Indian Impact Schools of Montana**, said this bill is a good bill and is long past due. She said that she does have a concern over some of the language in the bill on behalf of the Indian Impact Schools. **Ms. Brannon** said that because this implements a state sales tax, it will reduce the amount of money that these schools will receive from the federal government by as much as \$6 million to \$8 million because it is now a state tax rather than a local tax. She said it would be ideal if somehow, for impact aid purposes, the sales tax could be considered a local tax because it is collected locally.

**Ms. Brannon** also said that she would commend **SEN. SPRAGUE** and **REP. STORY** on the fact that this goes back to putting schools into the business of saving money and encourages districts to save as much as they possibly can so they would not have to go back on their own local taxpayers for funding. She urged support of these bills.

#### Opponents' Testimony:

**Dick Pattison, President, Montana Senior Citizens Association, and Treasurer, Montanans Opposing Sales Taxes**, said his organizations oppose **SB 143**, and by association, **SB 135** and **SB 157**. He submitted written testimony **EXHIBIT (tas22a08)**. **Mr. Pattison** testified that it is the belief of his organizations that this proposal will adversely affect those on fixed incomes, senior citizens with little or no pension, those in minimum wage jobs, and those with children to educate. He said the people of Montana didn't want a sales tax in 1971, they wanted it even less in 1993, and they don't want it now.

**Don Judge, AFL-CIO**, said that his organization represents 42,000 households in Montana who are in opposition of **SB 135**, **SB 143** and **SB 157**. **Mr. Judge** said they agree that there is a need in Montana for tax reform, but they remain opposed to an organized effort to shift the tax burden off of the major industrial producers of the state of Montana and onto the backs of the working families. He said 90% of this tax will be paid by Montanans.



**Mr. Judge** also said Lester Thoreau has suggested that by the year 2010, 50% of the retail establishments in this country will be closed because of the internet and the rise in catalog shopping, and a sales tax cannot be collected on those sales. He said this proposal is not going to resolve Montana's tax and economic problems, and urged the committee to vote no.

**Larry Ellison, Ellison Repair Service, Bozeman**, submitted written testimony **EXHIBIT (tas22a09)**. He said that he is a one-man shop. He said his gross receipts for the last year were approximately \$100,000, which works out to about \$400 a day. Because approximately 50% of his business is exempt, he would have about \$200 a day taxable at 4%, which would be \$8 a day. It is proposed that 1.5% would be returned to him for his trouble, and that works out to \$.12 a day. He estimates that it will take him about ten minutes a day to do the paperwork, file the quarterly forms, et cetera, and that works out to \$.012 per minute. He said the current minimum wage in the state is \$.086 cents per minute. He said he works about ten hours to get five billable hours, so he is going to have to work longer hours or raise his prices. He said he does not have the time or the inclination to be a tax collector for the state.

**Ron deYong, Montana Farmers Union**, said there are numerous reasons to oppose the sales tax. He said the largest corporations in Montana are going to receive some significant tax breaks. If this is a revenue neutral plan, someone has to replace that income, and it is going to be the ordinary taxpayer. He said the Farmers Union is opposed to a whole new tax system.

**Mr. deYong** said this is not a simple tax or a simple system. The state will have to purchase a \$5 million to \$8 million computer system just to administer this tax, and it will take ten months to get the bureaucracy up and running to take care of this tax. The voters will receive an information packet that will be at least 42 pages long. He said Montanans have rejected a sales tax before, and wondered what they will do if the information packet is 42 pages long.

**Mr. deYong** also asked **SEN. SPRAGUE** to explain the fiscal notes. He said in his understanding, the fiscal notes indicate the net impact on the General Fund balance will be a deficit of \$47 million. He said **SB 157** reflects a deficit of more than \$462 million, while **SB 143** shows \$412 million of income, and **SB 135** shows \$3 million of income, which leaves a General Fund deficit of \$47 million.

**Chester Kinsey, Helena**, testified that this is a bold attempt to shift the taxes from the more affluent to the middle income

population. He said he hoped the committee would consider some other ways to alter the tax system.

**Informational Testimony:**

**Rod Sundsted, Associate Commissioner for Fiscal Affairs, Montana University System,** said that while he doesn't wish to weigh in on the bill, he would like to point out a couple concerns. He said that we currently have a 6 mill levy statewide that is dedicated to the support of the Montana University System, which generates about \$14.7 million a year, and he understands the fiscal notes to say that that money would be replaced by 3%, which generates about \$13.6 million a year. That results in a loss of about \$2 million of dedicated revenue each biennium. The other concern is that currently that 6 mill revenue is dedicated to the University System. This proposal dedicates it to the Montana University System and the Community College Districts, so not only would there be less money, it would have to be spread over three more units.

**Riley Johnson, National Federation of Independent Businesses,** referred the committee to the survey of the 8,000 members of his organization that he mentioned during the hearing on **SB 61**. He said that another part of the survey which asked, "Would you support a consumptive 'sales tax' as a method of collecting taxes and replacing our current forms of tax collection?" He said his members favor tax reform, but because the results are too close, his organization cannot take a position on this matter. The results of the survey were as follows: 53% voted yes; 38% voted no, and 9% were undecided.

**Questions from Committee Members and Responses:**

**SEN. STANG** said that when this came out of the Interim Property Tax Committee, the reason he didn't support it was because the business equipment tax had been totally eliminated. He said the Senate Taxation Committee had heard recently that if Montana's business equipment tax was 3%, we would be more than competitive with surrounding states. He asked if **SEN. SPRAGUE** would be amenable to raising the rate on business equipment to 3% and spreading that savings out to a larger homeowner exemption or perhaps even further lowering the cost of license plates in the state of Montana. He also asked why the election date was set as September of 1999. **SEN. SPRAGUE** said he would be amenable to working with the committee in any way, and as far as the September election date, that was a mistake in the drafting of the bill. He said the election would probably take place in June of 1999.

**SEN. ECK** said that this proposal is probably as fair as a sales tax could be, but she sees the problem being not in the structure of the tax but in the perception of motivations. She asked whether some of these people who are opposed to the sales tax were involved in drafting these proposals. **SEN. SPRAGUE** said that it has been a learning process for him also in how the sales tax is perceived, and he realizes that perception is not reality. He said he knows how these people feel because he felt the same way, but that he has found by being on the Property Tax Committee that due to his lack of knowledge and lack of exposure to the real facts, he was basing his negative feelings toward the sales tax strictly on emotion. He said we need to educate the people of Montana about the reality of the proposal and get around the perceptions people have.

**SEN. SPRAGUE** went on to say that if education is our problem, perhaps a picture of a simple bell curve which shows the young, ages 17 to 27, on one side of the curve, with senior citizens, ages 67 to 107, on the other side. Those are the groups who will benefit most from this proposal, and the top of the bell curve would be the high-earning consumer/user. Because of their ability to buy and consume products, they would carry the largest load of this process.

**SEN. ECK** said that people want to know how the benefits are spread, and who benefits the most from this proposal. **SEN. SPRAGUE** said that Chart 7 was the most enlightening thing for him, and that is the education perspective of where most of your tax money goes.

**SEN. ELLINGSON** said he appreciated the efforts in bringing this proposal, but he asked if **SEN. SPRAGUE** could respond to the comments made by **Mr. deYong** that there was a \$47 million shortfall in its impact on the General Fund. **SEN. SPRAGUE** said that that is a mistake in the fiscal note, and said that they are still crunching numbers. **SEN. ELLINGSON** then asked if they were crafting this in such a way so that there will not be a \$47 million shortfall, and **SEN. SPRAGUE** said that was absolutely correct. This proposal is meant to be revenue neutral, zero consequence and zero cause and effect.

**SEN. ELLINGSON** then asked about page 29, Section 63 of **SB 143**, where it is defined how the revenue of the state sales tax is to be distributed, and part of it states that 97% of the General Fund is for aid to public schools. He asked if that language was adequate language to make certain that 97% of the proceeds of the sales tax is dedicated in perpetuity to public school funding.

**SEN. SPRAGUE** said that if that is not adequate, he hopes that the

committee can redefine it. He said it is the intention of the proposal to make it that way.

**SEN. ELLINGSON** said it would be helpful in evaluating this if the committee could have more information that specifically identifies by category of income level who is going to be paying for this approximately \$500 million of revenue every year, broken down by income category, and what their tax burden is now by income category so that the committee can have a better understanding of where the shift is taking place and deal with the fundamental public policy issue of whether this is an equitable shift or not. **SEN. SPRAGUE** said that they will work with **Judy Paynter** of the Department of Revenue to provide that information.

**SEN. BOHLINGER** said that he feels that the greatest need facing the people of the state of Montana is a need for comprehensive tax reform legislation, and he hopes that this session will produce that. He said in examining the proposal, he has some concern that there doesn't appear to be any assurance that the homeowner will be protected from future legislative action that will once again tax homeowners for the cost of K-12 education, the 95 mills. **SEN. SPRAGUE** said that there is a portion in the bill that talks about it being statutory as far as appropriations, but with **CI-75** that is the cap.

**SEN. EKEGREN** asked if, in fact, 50% of our retail sales will come from catalog sales and internet sales in the next ten years, whether the loss of that income had been considered in the proposal, and how that different will be made up. **SEN. SPRAGUE** said that the internet is growing and will likely become a viable part of our economy, but he said we have to analyze where the volume of business is right now. He said that of the total volume of internet transactions at this point, about 80% are for such things as further technology, specialty items, things that you can't find locally, markets that we don't presently service. **SEN. SPRAGUE** said that we also need to consider tourism. He said last year 9 million tourists came to Montana, and they generated about \$1 billion worth of business. He said that with those figures, tourists could generate \$100 million of tax revenue in Montana.

**SEN. ELLIS** said that the committee had heard from the Department of Revenue on another bill regarding internet service providers, that there is no prohibition of collecting sales taxes on catalog sales or on internet sales, that there was just a federal prohibition on the use of internet services, and wondered if that was correct. **Judy Paynter, Department of Revenue**, answered that that is what the director of the Department of Revenue feels is

correct at this time, but that there is a study that is coming out of Washington on internet access charges, and there has been discussion on that committee about the viability of allowing tax on the sales on the internet. She said she believes that there is a question on the national level whether you are going to be allowed to tax economic transactions over the internet, but that there is some confusion about that issue, and in her mind it is not clear.

**SEN. ELLIS** then asked about the discrepancies in the figures he has been seeing regarding the six mill levy, saying that he had seen \$12 million and \$15 million, and **REP. STORY** explained that the six mill levy brings in around \$12 million or \$13 million for the University System, and then they also get some money that results from distribution of nonlevy revenue, which brings that number up to around the \$15 million. He said that the fiscal note shows the University System with a net loss of \$2 million because the nonlevy revenue distribution process is still being worked through. **SEN. ELLIS** asked if he could explain to the committee just exactly what he envisions happening along those lines, and **REP. STORY** said he could not.

**SEN. GLASER** said he could not tell from the fiscal notes if there was any effect from these three bills on federal and state income tax. He asked if that was in the information the committee had or if it was something they needed to get separately. **Ms. Paynter** said there is nothing in these fiscal notes reflecting the impact on individual or corporate income taxes. She said there will be some impact, but unfortunately that is not included in the fiscal note. She said as these bills are refined, the Department will see if there is any way to look at the individual or the corporate tax effects. She said there are a number of things yet to be worked out on the finances of this bill, and when those figures get closer to being what reality is, the Department will attempt again to provide that information.

**SEN. ELLIS** then asked **Ms. Paynter** whether the Department could provide the committee with information that would indicate by class who uses the general exemption and therefore would not be affected by not being able to deduct their property tax costs, and who generally lists exemptions and therefore would be affected by this change in tax policy, and **Ms. Paynter** said the Department can do that.

**SEN. ECK** requested information from **SEN. SPRAGUE** regarding the types of businesses that would be taxed, and how much tax is on retail sales and how much would be on services and construction, things that would not be affected by retail. **SEN. SPRAGUE** said he would try to get that for the committee.

**SEN. ELLIS** asked **Margaret Morgan, Director, Montana Association of Realtors**, if she knew what percentage of the membership of the Montana Tax Policy Coalition, represents large corporations. She said that for the most part the Coalition consists of organizations which represent smaller businesses as opposed to larger businesses, but she could not provide a percentage.

**SEN. DEPRATU** said that the people of Montana have asked for tax reform, and he said he believes that all of the options must be considered. This proposal is just one of the options that are being presented to us, and it deserves great attention. He said he believes we have to look at all the options with an open mind, really study them, and try to get to understand them. He said this legislature really has an opportunity to put forth some good tax reform this session, and he complimented **SEN. SPRAGUE** and **REP. STORY** for all of their hard work in bringing this proposal forward.

**Closing by Sponsor:**

**SEN. SPRAGUE** thanked the committee for taking the time for this hearing and **REP. STORY** for working with him on these proposal. He said that while working with the Interim Property Tax he became aware that the main problem we have in Montana is a lack of communication and education, so he pledged to do all he can to provide the information requested and then ask the legislature to take that data and share it with the citizens of Montana.

**ADJOURNMENT**

Adjournment: 10:13 A.M.

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SEN. GERRY DEVLIN, Chairman

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SANDY BARNES, Secretary

GD/SB

**EXHIBIT (tas22aad)**